

# Bermaz Auto Berhad

(5248 | BAUTO MK) Automotive &amp; Parts | Personal Goods

**Maintain BUY**

## Not at full potential yet

**Revised Target Price: RM1.98**
*(previously RM2.35)*

### KEY INVESTMENT HIGHLIGHTS

- **2QFY22 results improved, but still not at full potential**
- **Manufacturing operations only started running at full swing towards end-September**
- **Effective order backlog of circa 2 months and normalizing operations to drive further improvement in 2HFY22**
- **New launches remain on track with aggressive EV model launches slated for 2HCY22**
- **Maintain BUY albeit at lower TP of RM1.98**

**Gradual recovery.** BAuto reported core earnings of RM27m (+3.7%yoy/+147%qoq) for its 2QFY22. This brought its 1HFY22 core earnings to RM37m (+5%yoy), which accounted for 30% of our FY22F and 29% of consensus estimates. While we expect a much stronger 2HFY22, we deem this below expectation given weaker than expected sales volume and initial losses from Bermaz Auto Alliance Sdn Bhd (BAASB).

**Interim dividend declared.** A 1.5sen/share interim dividend was declared for 2QFY22, which brings 1HFY22 dividends to 2sen/share. This represents a generous 62% payout.

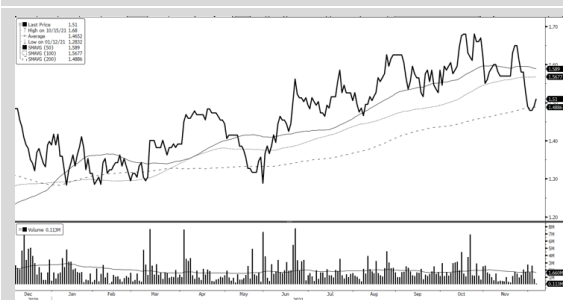
**Only reached full operations towards end-September.** BAuto's operations in 2QFY22 was still impacted by below-optimal operating capacity given required vaccination level compliance in the immediate period post MCO3.0. Manufacturing operations in particular, only returned to full capacity towards end-September, which dragged overall performance in the quarter. Additionally, BAASB incurred initial operating losses in the period (LAT of RM1.7m). We understand however, that the group expects BAASB to breakeven by financial year-end as it gradually addresses legacy issues (mainly expensive spare parts and after-sales issues) at Peugeot. Despite this, on a year-on-year basis, BAuto still managed to squeeze out a +3.7%yoy core earnings growth to RM27m in 2QFY22 given an improved sales mix. BAuto Philippines meanwhile, remained marginally profitable at a RM1.2m PAT in the quarter.

**Strong order backlog.** Order backlog is still solid at over 2K units for Mazda and over 160 units for Peugeot. The former implies close to 2 months of waiting list. We expect these, plus an extended tax holiday (till Jun22') to drive improved earnings performance in 2HFY22. There are no chip shortage issues for CKD models as the group had secured supplies to last 3-4 months. However, CBU models i.e. the CX30 and CX3 is seeing some delays of about 2-3 months.

### RETURN STATISTICS

Price @ 13 <sup>th</sup> Dec 2021 (RM)	1.50
Expected share price return (%)	+32.3
Expected dividend yield (%)	+4.4
<b>Expected total return (%)</b>	<b>+36.6</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-5.7	-2.8
3 months	-5.7	1.7
12 months	-2.1	6.8

### KEY STATISTICS

FBM KLCI	1,494.86
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	1161.43
Estimated free float (%)	51.49
Market Capitalisation (RM'm)	1,743.24
52-wk price range	RM1.28 - RM1.71
Beta vs FBM KLCI (x)	1.19
Monthly velocity (%)	0.00
Monthly volatility (%)	19.10
3-mth average daily volume (m)	1.71
3-mth average daily value (RM'm)	2.72
Top Shareholders (%)	
Employees Provident Fund Board	18.63
Dynamic Milestone Sdn Bhd	14.47
Amanah Saham Nasional Bhd	7.89

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## INVESTMENT STATISTICS

FYE Apr	FY19	FY20	FY21	FY22F	FY23F
Revenue (RM'm)	2,492.1	1,759.0	2,287.9	2,184.7	2,919.5
Operating profit (RM'm)	284.0	108.1	159.6	134.5	209.0
Pre-tax Profit (RM'm)	342.3	131.8	172.7	146.6	230.1
Core net profit (RM'm)	265.3	100.5	134.8	109.2	162.1
FD EPS (sen)	22.8	8.6	11.6	9.4	13.9
EPS growth (%)	89.4	(62.1)	34.2	(19.0)	48.4
PER (x)	6.6	17.4	13.0	16.0	10.8
Net Dividend (sen)	21.3	7.5	6.5	6.6	7.0
Dividend Yield (%)	14.2	5.0	4.3	4.4	4.6








Source: Company, MIDFR

**New launches.** The new CBU Kia Carnival is on track for launch this month, while the CKD variant remains on track for launch in Apr22'. Other expected new launches for Kia in CY22 include the all new Sportage and Sorento in 3Q-4QCY22. Meanwhile, the new Seltos (B-segment SUV) is expected to be launched in 4QCY22. In terms of EV launches, the Kia EV6 and the Niro EV are slated for launch in 2HCY22. For Mazda, new launches comprise mainly of facelifts, while the new BT-50 is expected to be launched this month and the all new MX30 EV model in 3Q-4QCY22. For Peugeot, the new 3008 and 5008 models were launched in Nov21'. The new 2008 meanwhile is due for launch in Jan22' with the EV variant slated to be released in 4QCY22. Additionally, the new Landtrek (pick-up) is targeted for launch in 3QCY22.

**Earnings revision.** Given the weaker than expected results, we trim our FY22F/23F earnings by 12%/17% to reflect more conservative volume assumptions for Mazda and Peugeot. Our revision also factors in the impact of Cukai Makmur, which is expected to raise effective tax rates by 2-3ppts in CY22F.

**Recommendation.** Following the earnings revision, our TP is revised lower to RM1.98 (from RM2.35 previously). Our valuation continues to peg BAUTO at 16x CY22F earnings, at 1SD above historical mean given brand expansion-driven growth and a cyclical recovery in the auto sector. Even at the revised TP, BAUTO still entails a 37% total upside, inclusive of an expected 4.4% (FY22F) dividend yield. The group is morphing into a multi-brand auto conglomerate following its recent brand acquisitions, which is expected to drive above-industry earnings and volume growth throughout our forecast horizon. Coupled with undemanding valuation of 10.8x FY23F PER against an expected 48%yoy earnings growth (FY23F) and an attractive dividend yield, we maintain our **BUY** call on BAUTO. Key catalysts: (1) Sustained earnings improvement for underlying Mazda operations on normalizing margins and reopening of the economy, (2) A weaker JPY, (3) Rollout of new Kia models from CY21F (CBU) and CKD model rollouts in CY22F (4) Rollout of Peugeot 2008 CKD in Jan22', (5) Budget 2022's EV duty exemptions which may incentivize consumer take-up of EV models – BAUTO is well positioned to capitalize on this with ready EV models from Kia (EV6, Niro, Sportage PHEV), Peugeot (3008 EV, 508 Electric Hybrid) and Mazda (MX30 EV).

### Exhibit 1: BAUTO EV model line-up (2022)

BAUTO EV Model 2022	2022	
	Q3	Q4
		
		
		

Source: Company, MIDFR

**Exhibit 2: BAuto 2QFY22 Result Summary**

<b>FYE Apr (RMm)</b>	<b>2Q21</b>	<b>1Q22</b>	<b>2Q22</b>	<b>QoQ</b>	<b>YoY</b>	<b>1H21</b>	<b>1H22</b>	<b>YTD</b>
Revenue	599.8	320.8	483.8	50.8%	-19.3%	1,048.7	804.6	-23.3%
<b>Operating profit</b>	<b>34.0</b>	<b>16.3</b>	<b>31.7</b>	<b>94.1%</b>	<b>-6.8%</b>	<b>52.5</b>	<b>48.0</b>	<b>-8.5%</b>
Investment income	1.4	1.9	1.3	-28.8%	-4.9%	2.0	3.2	57.3%
Finance cost	(3.2)	(2.8)	(2.4)	-15.0%	-26.7%	(7.3)	(5.2)	-29.3%
Associates	1.8	(0.9)	2.9	-418.1%	66.6%	(0.2)	2.0	-1130.9%
Pretax profit	33.9	14.5	33.5	131.7%	-1.0%	47.0	48.0	2.2%
Tax	(9.4)	(4.1)	(8.6)			(13.9)	(12.8)	-8.1%
PAT	24.5	10.3	24.9	141.0%	1.6%	33.1	35.3	6.5%
MI	(0.3)	0.1	(1.1)	-1630.1%	334.6%	(0.9)	(1.0)	14.1%
Net profit	24.8	10.3	26.0	153.6%	5.0%	34.0	36.3	6.7%
<b>Core net profit</b>	<b>25.6</b>	<b>10.8</b>	<b>26.5</b>	<b>146.5%</b>	<b>3.7%</b>	<b>35.6</b>	<b>37.4</b>	<b>5.0%</b>
Core EPS (sen)	2.20	0.92	2.28	146.5%	3.7%	3.06	3.21	5%
GDPS (sen)	1.25	0.50	1.50	200.0%	20.0%	1.75	2.00	14%
Operating margin	5.7%	5.1%	6.5%			5.0%	6.0%	
Pretax margin	5.7%	4.5%	6.9%			4.5%	6.0%	
Core net profit margin	4.3%	3.4%	5.5%			3.4%	4.6%	
Tax rate	27.6%	28.6%	25.7%			29.6%	26.6%	
Mazda TIV (Malaysia, units)	3,520	1,619	2,699	66.7%	-23.3%	6,183	4,318	-30.2%
Malaysia revenue (RMm)	558.4	270.6	449.6	66.2%	-19.5%	980.1	720.3	-26.5%
Philippines revenue (RMm)	41.4	50.2	34.2	-31.9%	-17.5%	68.6	84.4	22.9%
Malaysia EBIT (RMm)	32.9	15.5	31.0	100.0%	-5.8%	50.5	46.4	-8.0%
Philippines EBIT (RMm)	2.1	1.1	1.2	3.6%	-43.8%	1.9	2.3	17.0%
Malaysia EBIT margin	5.9%	5.7%	6.9%			5.2%	6.4%	
Philippines EBIT margin	5.0%	2.2%	3.4%			2.8%	2.7%	
BAP (P'pines) volume (units)	282	315	215	-31.7%	-23.8%	459	530	15.5%
MMSB volume (units)	2,449	1,429	2,341	63.8%	-4.4%	2,698	3,770	39.7%
Inokom volume (units)	3,476	2,195	5,411	146.5%	55.7%	7,759	7,654	-1.4%

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
HOLD	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology